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SUBJECT: LEHMAN MINIBOND CHORUS INTENSIFIES; LOCAL ECONOMIST
FORECASTS FINANCIAL "TYPHOON"

REF: HONG KONG 1757

¶1. Summary: Hong Kong's leading Chinese-language newspaper reported on September 23 that 50,000 local investors hold approximately USD 3.2 billion of "minibonds" issued by bankrupt investment bank Lehman Brothers (reftel). At a September 22 town hall meeting organized by Hong Kong's Democratic Party (DP), over 800 disgruntled investors criticized local banks that sold the minibonds. They claimed the banks misrepresented the minibonds' risk profile to retail customers. The investors also criticized the Hong Kong Monetary Authority for exercising weak oversight of the banks' selling practices. Several investors suggested a Sunday march to the U.S. Consulate General, as a means to further highlight their plight. While senior HKG officials have generally refrained from public comments about the U.S. Treasury Department's plan to purchase distressed financial assets, local economists and market commentators remain dubious. HSBC's most senior local economist forecast a "typhoon" in global financial markets, and he urged retail investors to liquidate their shareholdings. The Hang Seng Index (HSI) fell steadily on September 23 and closed down 3.9 percent. The overnight HIBOR rate remained low, while the one-week and one-month rates rose significantly from the previous trading day. End summary.

Scope of Lehman "Minibond" Losses Grows

¶2. The pro-Beijing Wen Wei Po newspaper calculated on September 23 that 50,000 local individuals hold Lehman-issued "minibonds" totaling approximately USD 3.2 billion (HKD 25 billion). This amount is nearly double the estimate provided by Hong Kong's Securities and Futures Commission (SFC) on September 22 (reftel). Wen Wei Po reported that a single unnamed mainland China bank with operations in Hong Kong sold Lehman minibonds to over 20,000 individuals here.

Angry Investors Look to Place Blame

¶3. On September 22, approximately 800 disgruntled holders of minibonds issued by Lehman Brothers gathered at a local town hall to voice their concerns to the HKG. The event was organized by Hong Kong's Democratic Party (DP) and followed a similar DP-led gathering of Lehman minibond holders on September 21. The investors face significant losses in the wake of Lehman's bankruptcy, and they vilified the 21 local commercial banks that sold the Lehman-issued structured debt instruments to retail investors. They also blamed the Hong Kong Monetary Authority (HKMA) for allowing commercial banks to "misrepresent" the risks involved with investing in the minibonds.

¶4. The Chinese-language Hong Kong Economic Journal (HKEJ) reported on September 23 that several angry minibond investors gathered at the town hall proposed a march on Sunday, September 28 to the U.S.

Consulate General and to the Central Government Liaison Office (CGLO), in order to seek help from non-HKG authorities. These and other assembled investors reportedly expressed doubts that the HKG would strongly defend their interests. The HKEJ said it learned that Hong Kong's Chief Executive Donald Tsang would only express "sympathy" to the Lehman minibond holders, while HKMA Chief Executive Joseph Yam would be assigned to formulate the HKG's response to the problem.

HKG Officials Withhold Comments on USG Plan

15. Neither Hong Kong's chief executive nor the head of its monetary authority have commented publicly on the USG's preliminary plan to purchase distressed assets from financial institutions. Financial Secretary John Tsang has thus far been the HKG's public voice on the issue, and he provided a tepid endorsement of the US\$ 700 billion package. According to Hong Kong's Chinese-language press, on September 22 Tsang said, "The United States is going to inject a large amount of capital to rescue the market, but the long-term impacts (of the plan) remain to be seen."

Senior Local Economist Sees Financial "Typhoon"

16. HSBC's most senior local economist, George Leung, said in a Chinese-language radio interview on September 23 that he believes market volatility will continue in coming months. He compared the current financial turbulence to a "Typhoon Signal Number 10" (i.e. the strongest possible typhoon warning in Hong Kong). He said retail investors currently purchasing shares are "like thrill-seekers who go to the beach to try to surf the big waves as a

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typhoon approaches." In somewhat odd remarks from a senior banking executive whose company's earnings are derived in part from retail share trading, Leung advised local retail investors to "play it safe, and leave the stock market if possible."

Hang Seng Lower as Uncertainty Grows

17. Hong Kong's HSI moved steadily lower on September 23 and finished down 3.9 percent, related to continued uncertainty about the ultimate structure and enactment of the U.S. Treasury Department's purchase plan for distressed financial assets. Mainland bank shares led the HSI decline, with ICBC, CCB and BOC each down 4-5 percent.

18. The overnight interbank HIBOR rate remained low at 2.25 percent as of 1715 HRS local time on September 23, while other rates rose from the previous trading day. The one-week and one-month rates rose significantly to 3.5 percent and 4.0 percent, respectively, while the three month and six month rates increased slightly.

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